



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
PUBLIC UTILITIES COMMISSION
YEAR ENDED JUNE 30, 1978**

**REPORT TO THE
CALIFORNIA LEGISLATURE**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

785

FINANCIAL AUDIT REPORT
PUBLIC UTILITIES COMMISSION
YEAR ENDED JUNE 30, 1978

JANUARY 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

Office of the Auditor General

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February 7, 1980

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The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the Public Utilities Commission, year ended June 30, 1978.

The auditors are Curt Davis, Audit Manager; Merrill Tompkins, CPA; and Philip Jelicich.

Respectfully submitted,

S. FLOYD MORI
Assemblyman, 15th District
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the Public Utilities Commission. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Public Utilities Commission (PUC) is responsible for the regulation of privately-owned public utilities, including such entities as electric, telephone, gas, warehouse, truck, bus, airline, and pipeline companies. The commission's primary objectives are (1) to protect the public interest by ensuring fair and impartial rates as well as adequate service facilities rendered by stable, financially responsible companies and (2) to provide the public with a stable, efficient, and dependable transportation and warehouse system at a reasonable rate.

Regulated utility and transportation companies submit all proposed changes in rate structures to the commission for approval. When investigating complaints against utilities, the commission holds hearings, renders decisions, and secures compliance through enforcement procedures. Commission decisions may be appealed only to the California Supreme Court, whose review power is limited to questions of law.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Public Utilities Commission as of June 30, 1978 and the related statement of revenues, expenditures, and changes in fund balance and operating clearing for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Public Utilities Commission at June 30, 1978 and results of operations and changes in fund balance and operating clearing for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying financial statements captioned "Total - Memorandum Only" for June 30, 1978 are not necessary for a fair presentation of the financial statements but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statement of changes in fund balance for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.


WESLEY E. VOSS
Assistant Auditor General

Date: October 11, 1979

Staff: Curt Davis, CPA
Merrill Tompkins, CPA
Philip Jelich

PUBLIC UTILITIES COMMISSION

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978
(With Unaudited Amounts for 1977)

	Governmental Fund Types		Fiduciary Fund Type	Account Group	Total	
	General	Special Revenue			(Memorandum Only)	June 30, 1977
		Transporation Rate				
<u>ASSETS</u>						
Cash	\$ 366,794	\$ 589,091	\$1,388,827	\$ --	\$ 2,344,712	\$1,291,020
Deposits in Surplus Money Investment Fund (Note 3)	--	6,112,000	--	--	6,112,000	3,446,000
Accounts receivable	1,600,161	48,922	--	--	1,649,083	586,785
Allowance for uncollectible and deferred receivables (Note 4)	(264,562)	(46,847)	--	--	(311,409)	(304,621)
Due from other funds	1,536,101	214,309	--	--	1,750,410	585,689
Expense advances to employees	53,931	--	--	--	53,931	70,495
Equipment	--	--	--	649,922	649,922	522,614
Total Assets	<u>\$3,292,425</u>	<u>\$6,917,475</u>	<u>\$1,388,827</u>	<u>\$649,922</u>	<u>\$12,248,649</u>	<u>\$6,197,982</u>
<u>LIABILITIES, ENCUMBRANCES OUTSTANDING, AND FUND EQUITY</u>						
Liabilities:						
Refunds payable	\$ --	\$ 4,616	\$ --	\$ --	\$ 4,616	\$ 2,771
Accounts payable	1,014,695	--	--	--	1,014,695	339,053
Due to other funds	--	1,536,101	249,004	--	1,785,105	494,220
Other Liabilities:						
Uncleared collections	27,925	5,164	--	--	33,089	98,190
Total Liabilities	<u>1,042,620</u>	<u>1,545,881</u>	<u>249,004</u>	<u>--</u>	<u>2,837,505</u>	<u>934,234</u>
Encumbrances Outstanding	355,648	--	--	--	355,648	--
Fund Equity:						
Investment in General Fixed Assets	--	--	--	649,922	649,922	522,614
Fund Balances:						
Designated for depositors	--	--	1,139,823	--	1,139,823	472,429
Undesignated	--	5,371,594	--	--	5,371,594	3,462,300
Operating Clearing (Note 8)	<u>1,894,157</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,894,157</u>	<u>806,405</u>
Total Fund Equity	<u>1,894,157</u>	<u>5,371,594</u>	<u>1,139,823</u>	<u>649,922</u>	<u>9,055,496</u>	<u>5,263,748</u>
Total Liabilities, Encumbrances Outstanding, and Fund Equity	<u>\$3,292,425</u>	<u>\$6,917,475</u>	<u>\$1,388,827</u>	<u>\$649,922</u>	<u>\$12,248,649</u>	<u>\$6,197,982</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITIES COMMISSION

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE AND OPERATING CLEARING - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES

FOR THE FISCAL YEAR ENDED JUNE 30, 1978

	General Fund			Special Revenue Fund			Totals (Memorandum Only)		
	Budget as Adjusted	Actual	Variance	Budget as Adjusted	Actual	Variance	Budget as Adjusted	Actual	Variance
Revenues: (Notes 2 and 5)									
Income from surplus money investments	\$ --	\$ --	\$ --	\$ 195,000	\$ 347,710	\$ 152,710	\$ 195,000	\$ 347,710	\$ 152,710
Fees, fines, and penalties	3,925,400	4,507,248	581,848	8,992,000	10,196,777	1,204,777	12,917,400	14,704,025	1,786,625
Sale of documents	32,300	63,106	30,806	440,000	490,181	50,181	472,300	553,287	80,987
Miscellaneous revenue	4,000	6,503	2,503	--	1,193	1,193	4,000	7,696	3,696
Total Revenues	3,961,700	4,576,857	615,157	9,627,000	11,035,861	1,408,861	13,588,700	15,612,718	2,024,018
Other Sources:									
Support appropriation	30,286,477	27,083,935	(3,202,542)	--	--	--	30,286,477	27,083,935	(3,202,542)
Reimbursements (Note 7)	4,567,294	4,265,748	(301,546)	--	13,561	13,561	4,567,294	4,279,309	(287,985)
Total Other Sources	34,853,771	31,349,683	(3,504,088)	--	13,561	13,561	34,853,771	31,363,244	(3,490,527)
Total Revenues and Other Sources	\$ 38,815,471	35,926,540	\$ (2,888,931)	\$ 9,627,000	11,049,422	\$ 1,422,422	\$ 48,442,471	46,975,962	\$ (1,466,509)
Expenditures: (Note 2)									
Personal services	\$ 23,278,976	21,190,608	\$ 2,088,368	\$ --	--	\$ --	\$ 23,278,976	21,190,608	\$ 2,088,368
Operating expenses and equipment	6,668,448	6,660,300	8,148	--	--	--	6,668,448	6,660,300	8,148
Prior year adjustments	--	229,639	(229,639)	--	--	--	--	229,639	(229,639)
Expenditures reimbursed to the General Fund (Note 6)	(9,176,979)	(9,140,128)	(36,851)	9,176,979	9,140,128	36,851	--	--	--
Total Expenditures	\$ 20,770,445	18,940,419	\$ 1,830,026	\$ 9,176,979	9,140,128	\$ 36,851	\$ 29,947,424	28,080,547	\$ 1,866,877
Other Uses:									
Transfer of accountability to the State Controller		15,898,369			--			15,898,369	
Total Expenditures and Other Uses		34,838,788			9,140,128			43,978,916	
Excess of Total Sources over Total Uses		1,087,752			1,909,294			2,997,046	
Fund Balance - July 1		--			3,462,300			3,462,300	
Operating Clearing - July 1 (Note 8)		806,405			--			806,405	
Fund Balance - June 30		--			5,371,594			5,371,594	
Operating Clearing - June 30 (Note 8)		\$ 1,894,157			--			\$ 1,894,157	

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITIES COMMISSION

STATEMENT OF CHANGES IN FUND BALANCE
FIDUCIARY FUND TYPE
SPECIAL DEPOSIT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

	<u>1978</u>	<u>1977</u>
Fund Balance - July 1	\$ 472,429	\$ 267,346
<u>Additions:</u>		
Receipts from depositors	3,751,829	1,210,781
<u>Deductions:</u>		
Funds paid to or for depositors	<u>3,084,435</u>	<u>1,005,738</u>
Fund Balance - June 30	<u>\$1,139,823</u>	<u>\$ 472,389</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC UTILITIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operation of the Public Utilities Commission. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The accompanying financial statements are structured into Governmental Fund Types, a Fiduciary Fund Type, and an Account Group. The Public Utilities Commission accounts for only its portion of the fund type categories. The State Controller maintains the central accounts for all state funds and annually publishes consolidated fund statements.

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions are financed. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities--except those accounted for in Proprietary Funds--are accounted for through governmental funds. The General Fund and Special Revenue Fund are the Governmental Fund Types in the Public Utilities Commission.

General Fund

This fund includes all financial resources not accounted for in another fund.

Special Revenue Fund

These funds are used to account for specific revenues and operating expenditures earmarked for particular activities. The Special Revenue Fund used by the PUC is the Transportation Rate Fund.

Transportation Rate Fund

The commission uses this fund to account for its expenses in administering and enforcing various acts relating to rates, charges, and classifications of those carrying property for compensation. Funding is derived from quarterly fees based upon the gross operating revenues, regulatory licenses and penalties, voluntary suspension fees, and the sale of documents.

The Governmental Fund Types are maintained on the modified accrual basis of accounting. These are some of the more significant elements:

Income

Throughout the fiscal year all income, except certain reimbursements which are recorded when billed, is accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected income.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued as expenditures against budget appropriations, including encumbrances outstanding for which no goods or services have been received.

Liabilities

Retirement Plan - Regular employees are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The Public Utility Commission's share of retirement contributions for the year totalled \$2,547,993.

Vacation and Sick Leave - Costs of vacation and sick leave are charged at the time benefits are used rather than when they are earned.

FIDUCIARY FUND TYPE

Fiduciary Fund Types are used to account for assets held by a governmental unit in a trustee capacity. Included in this category is the Special Deposit Fund. The Special Deposit Fund includes monies received or collected for specific purposes by a state agency for which no fund has been created in the State Treasury.

ACCOUNT GROUP

The Account Group is used to account for general fixed assets. Assets purchased are recorded as expenditures in the appropriate fund in the year of acquisition or encumbrance. General fixed assets increased by a net of \$127,308 during the fiscal year.

2. BUDGETED REVENUES AND EXPENDITURES

The amounts shown under "Budget as Adjusted" for revenues and detailed expenditure accounts reflect the Governor's Budget after allowing for adjustments to the budget act, interim statutory changes affecting appropriations, and authorized executive budget revisions issued during the year.

3. DEPOSITS IN SURPLUS MONEY INVESTMENT FUND

This account shows the amount of the agency's money in the Surplus Money Investment Fund. The Surplus Money Investment Fund is used to account for the monies that have been transferred for investment purposes. All earnings derived from investments of the fund are apportioned to the contributing funds. At June 30, interest due from the Surplus Money Investment Fund amounted to \$214,309.

4. ALLOWANCE FOR UNCOLLECTIBLE AND DEFERRED RECEIVABLES

This account reflects the amount of receivables that are not expected to be collected within the next fiscal year. For example, \$257,232 of the \$264,562 account balance at June 30, 1978, represents fines and penalties subject to appeal and possible reduction or rescission through decisions rendered by the commission. The balance of \$7,330 represents miscellaneous receivables that are not expected to be collected within the next fiscal year.

5. GENERAL FUND REVENUES

During 1977-78, the Public Utilities Commission collected \$4,507,248 in fines, fees, and penalties for the General Fund. The commission collected \$2,164,696 of this amount from various utility and transportation companies and deposited it in the State Treasury to the credit of the General Fund. The remaining \$2,342,552 was collected from persons and corporations owning or operating motor vehicles for hire involved in the transportation of property upon the public highways under the jurisdiction of the commission. As prescribed by Section 4306 of the Public Utilities Code, this remaining sum was deposited in the State Treasury to the credit of a special account in the General Fund known as the Highway Carriers Uniform Business License Tax Account. Monies in this special account are appropriated to the State Controller and are disbursed proportionately by population to the cities and counties of this State.

6. EXPENDITURES REIMBURSED
TO THE GENERAL FUND

The General Fund is the accounting entity for the commission's operating expenses and is reimbursed for certain expenses incurred. For the fiscal year 1977-78, the Transportation Rate Fund reimbursed the General Fund \$9,140,128 for departmental expenses.

7. REIMBURSEMENTS

In addition to the reimbursement detailed in Note 6 above, the General Fund also accounted for \$3,247,825 in reimbursements for the commission's role in fulfilling various provisions of the Liquified Natural Gas Terminal Act of 1977 under Sections 5550 through 5650 of the Public Utilities Code.

Also, reported are reimbursements of \$1,017,923 for costs incurred in the preparation of transcripts and environmental impact reports and for other services provided by the commission.

8. OPERATING CLEARING

This account is the connecting link between the books of the various state agencies and the central fund accounts of the State Controller's Office for the General Fund and other funds not accounted for entirely by one agency.

COMMENTS

The State Controller's Annual Report for the fiscal year 1977-78 shows the fund balance of the Transportation Rate Fund as \$5,865,814. This amount exceeds the audited fund balance of \$5,371,594 as reported in the commission's financial statements by \$494,220. The fund balance is overstated within the Controller's Annual Report because certain obligations the commission included in its financial statements were not reported at year end to the State Controller.

OTHER INFORMATION

As an integral part of our examination, we reviewed the commission's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the commission's financial statements present its financial position and the results of operations in accordance with generally accepted accounting principles consistently applied.

Our review enabled us to suggest improvements which would result in better operating procedures and controls. A management letter describing the suggested operating improvements was issued to the commission along with certain recommended adjusting entries necessary to achieve compliance with generally accepted accounting principles.

The commission fully concurs with the suggested operating improvements and adjusting entries.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps